

# San Diego County, California

## Certificates of Participation New Issue Report

### Ratings

#### New Issues

Certificates of Participation,  
Edgemoor and RCS Refunding,  
Series 2014A and 2014B (Taxable) AA+

#### Outstanding Debt

##### San Diego County

Implied General Obligation Bonds AAA  
Pension Obligation Bonds, Series  
2002A, 2004A, 2004B-1, 2004B-2,  
2004C and 2008A AA+

Certificates of Participation (1996  
North and East County Regional  
Justice Facilities Refunding),  
Series 2005 (Edgemoor Facility  
Project and Refunding), Series  
2005 (2006 Edgemoor Completion  
Project), Series 2006 (Justice  
Facilities Refunding), Series 2009  
(2011 MTS Tower Refunding),  
Series 2011 (CAC Waterfront Park  
Project), Series 2011 (Cedar and  
Kettner Development Project),  
Series 2012 AA+

##### San Diego County Regional Building Authority

Lease Revenue Bonds (County  
Operations Center and Annex  
Redevelopment Project), Series  
2009A AA+

### Rating Outlook

Stable

### Related Research

Fitch Rates San Diego County, CA's  
\$95MM 2014 COPs 'AA+'; Affirms  
Outstanding (August 2014)

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### New Issue Details

**Sale Information:** \$94,800,000 San Diego County Certificates of Participation, Edgemoor and RCS Refunding, Series 2014A and 2014B (Taxable), selling the week of Aug. 18 via negotiation.

**Security:** The COPs are secured by the county's covenant to budget and appropriate lease rental payments for the use of various essential governmental properties, subject to abatement.

**Purpose:** To refund outstanding debt for interest savings.

**Final Maturity:** Oct. 15, 2029.

### Key Rating Drivers

**Large and Diverse Tax Base:** As the fifth largest county in the nation by population, San Diego (the county) benefits from a large and diverse tax base with substantial ongoing development. Taxable assessed values (TAVs) have improved steadily since a small decline during the last recession, and home values continue to register strong year-over-year increases.

**Steady Recovery Continues:** County unemployment rates have continued to decline and compare favorably with state and national averages. Employment levels have risen steadily since early 2010 and exceed pre-recession peaks.

**Strong Financial Position:** The county's general fund remains stable, with healthy fund balances. Recurring positive operating results are supported by strong institutionalized management policies and practices, including disciplined pension funding and effective actions to limit retiree pension and healthcare costs.

**Low Debt:** Debt management is very conservative, with significant cash financing and early debt retirements resulting in low debt levels with above-average amortization.

### Rating Sensitivities

**Strong Fundamentals:** The rating is sensitive to shifts in fundamental credit characteristics, including the county's substantial tax base and strong financial management practices. The Stable Rating Outlook reflects Fitch Ratings' expectation that such shifts are highly unlikely.

## Rating History — Implied GOs

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	8/6/14
AAA	Affirmed	Stable	5/30/13
AAA	Affirmed	Stable	10/1/12
AAA	Affirmed	Stable	5/31/12
AAA	Affirmed	Stable	7/11/11
AAA	Affirmed	Stable	5/25/11
AAA	Affirmed	Stable	4/14/11
AAA	Affirmed	Stable	5/27/10
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	9/16/09
AA+	Affirmed	Stable	6/1/09
AA+	Affirmed	Stable	1/22/09
AA+	Affirmed	Stable	10/16/08
AA+	Affirmed	Stable	7/18/08
AA+	Assigned	Stable	5/31/07

## Rating History — Lease and Pension Obligations

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	8/6/14
AA+	Affirmed	Stable	5/30/13
AA+	Affirmed	Stable	10/1/12
AA+	Affirmed	Stable	5/31/12
AA+	Affirmed	Stable	7/11/11
AA+	Affirmed	Stable	5/25/11
AA+	Affirmed	Stable	4/14/11
AA+	Affirmed	Stable	5/27/10
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	9/16/09
AA	Affirmed	Stable	6/1/09
AA	Affirmed	Stable	1/22/09
AA	Affirmed	Stable	10/16/08
AA	Affirmed	Stable	7/18/08
AA	Upgraded	Stable	5/31/07
AA-	Affirmed	Positive	6/2/06
AA-	Upgraded	Stable	5/15/00
A+	Assigned	Stable	9/14/98

## Related Criteria

[U.S. Local Government Tax-Supported Rating Criteria \(August 2012\)](#)

[Tax-Supported Rating Criteria \(August 2012\)](#)

## Credit Profile

San Diego County is the nation's fifth most populous county, with more than three million residents and 18 incorporated cities. The core industries of its diverse economy include manufacturing, the military and related defense industries and tourism. Employment levels have risen at a steady pace since 2010, with 50 consecutive months of year-over-year growth. Unemployment rates have continued to decline and, at 5.8% as of May 2014, compare favorably with state and national averages of 7.1% and 6.1%, respectively. Wealth and income indicators for the county remain above average.

## Large and Diverse Tax Base

The county's substantial tax base retained much of its value during the recent downturn despite housing price declines that exceeded the national average. Fiscal 2015 TAV is projected to increase by a strong 6%. Home values have continued to recover in the county, and Zillow.com reports year-over-year gains of 13.2% as of June 2014, which will likely support healthy TAV gains in 2016 as well.

## General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2009	2010	2011	2012	2013
Total Tax Revenue	930,584	904,515	894,222	925,861	904,358
License and Permits	35,838	40,967	42,643	42,552	43,255
Fines and Forfeits	56,252	53,996	51,826	50,905	45,523
Charges for Services	282,151	277,252	320,966	336,057	336,888
Intergovernmental Revenue	1,742,603	1,730,852	1,780,840	1,855,570	1,990,793
Other Revenue	90,243	56,928	76,021	71,260	39,907
<b>General Fund Revenue</b>	<b>3,137,671</b>	<b>3,064,510</b>	<b>3,166,518</b>	<b>3,282,205</b>	<b>3,360,724</b>
General Government	236,874	197,124	209,293	203,179	213,340
Public Safety Expenditures	1,126,903	1,055,315	1,079,836	1,140,718	1,178,229
Culture and Recreation Expenditures	29,274	28,102	30,637	31,175	28,732
Educational Expenditures	808	906	957	844	948
Capital Outlay Expenditures	8,059	27,184	21,965	33,249	17,599
Debt Service Expenditures	44,380	50,238	41,779	40,508	43,873
Other Expenditures	1,670,819	1,679,551	1,732,349	1,036,261	1,040,981
<b>General Fund Expenditures</b>	<b>3,117,117</b>	<b>3,038,420</b>	<b>3,116,816</b>	<b>3,221,850</b>	<b>3,313,406</b>
<b>General Fund Surplus</b>	<b>20,554</b>	<b>26,090</b>	<b>49,702</b>	<b>60,355</b>	<b>47,318</b>
Transfers In	230,296	226,039	274,448	244,148	263,203
Other Sources	443,544	338	414	360	71
Transfers Out	285,232	223,042	151,061	212,578	196,867
Other Uses	441,038	—	—	—	—
<b>Net Transfers and Other</b>	<b>(52,430)</b>	<b>3,335</b>	<b>123,801</b>	<b>31,930</b>	<b>66,407</b>
<b>Net Surplus/(Deficit)</b>	<b>(31,876)</b>	<b>29,425</b>	<b>173,503</b>	<b>92,285</b>	<b>113,725</b>
Total Fund Balance	1,190,038	1,220,108	1,394,380	1,487,847	1,601,422
As % of Expenditures, Transfers Out and Other Uses	31.0	37.4	42.7	43.3	45.6
Unreserved Fund Balance <sup>a</sup>	923,604	1,057,851	—	—	—
As % of Expenditures, Transfers Out and Other Uses	24.0	32.4	—	—	—
Unrestricted Fund Balance <sup>b</sup>	—	—	1,168,167	1,229,691	1,293,811
As % of Expenditures, Transfers Out and Other Uses	—	—	35.7	35.8	36.9

<sup>a</sup>Pre-GASB 54. <sup>b</sup>Reflects GASB 54 classifications: sum of committed, assigned and unassigned. Note: Numbers may not add due to rounding.

## Strong Financial Position

The county has achieved consistently strong general fund results, with positive operating margins. Results for fiscal 2014 appear likely to continue this positive trend, with a projected addition of \$39 million to the unassigned fund balance. Unrestricted fund balance at the end of fiscal 2013 was a healthy 36.9% of general fund spending.

The county's strong financial results are supported by forward-looking management policies and practices that include clear reserve targets, disciplined funding of capital needs and long-term obligations and conservative budgeting. In addition, the county has instituted numerous expenditure controls over the past several years, reducing both near-term and future cost pressures through strategic reductions in spending on employee and retiree benefits.

## Low Debt

The county benefits from its low debt burden as a result of a preference for cash financing of projects and early debt defeasance. Overlapping debt levels are moderate at \$4,400 per capita and 3.4% of TAV. Amortization is above average, with 59% of outstanding principal retiring within 10 years.

The county retains a substantial unfunded liability for retiree pension costs, which is expected to increase over the next two years due to past investment losses. Pension funding levels are reported at 78.7%, or an

estimated 73% under Fitch's assumption of 7% investment returns. In 2007, the county eliminated post-retirement healthcare benefits for active employees, capping its liability for other post-employment benefits (OPEB).

Fitch notes as a credit positive the county's full funding of its actuarially required annual required contribution for both pensions and OPEB, which together with debt service accounted for an affordable 11.4% of governmental expenditures in fiscal 2013.

### Debt Statistics

(\$000)	
Direct Debt <sup>a</sup>	1,098,765
<b>Total Net Direct Debt</b>	<b>1,098,675</b>
Overlapping Debt	13,030,679
<b>Total Overall Debt</b>	<b>14,129,444</b>

### Debt Ratios

Net Direct Debt Per Capita (\$) <sup>b</sup>	342
As % of Market Value <sup>c</sup>	0.3
Overall Debt Per Capita (\$) <sup>b</sup>	4,400
As % of Market Value <sup>c</sup>	3.4

<sup>a</sup>Includes current issuance. <sup>b</sup>Population: 3,211,252 (2013). <sup>c</sup>Market value: \$419,840,424,000 (2014). Note: Numbers may not add due to rounding.

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